
UNIT 12 APEC AND INDIAN OCEAN

Structure

- 12.1 Introduction
- 12.2 Objectives
- 12.3 APEC Structure
 - 12.3.1 APEC Members
 - 12.3.2 APEC's Three Pillars
- 12.4 Australia and APEC
- 12.5 Australia and Indian Ocean
- 12.6 IORARC Organisation Background
 - 12.6.1 Membership
 - 12.6.2 Recent Developments
 - 12.6.3 Australia's Interest in the IOR
- 12.7 Summary
- 12.8 Exercises
- 12.9 Suggested Readings

12.1 INTRODUCTION

The Asia-Pacific Economic Cooperation (APEC) forum is an Australian initiative. It was established at an informal meeting of 12 regional ministers in Canberra in 1989 to enhance economic growth and promote a sense of community within the Asia-Pacific. It has since developed into the region's most important multilateral forum, making an increasingly valuable contribution to regional co-operation, economic growth and stability.

12.2 OBJECTIVES

After studying this unit, you should be able to understand:

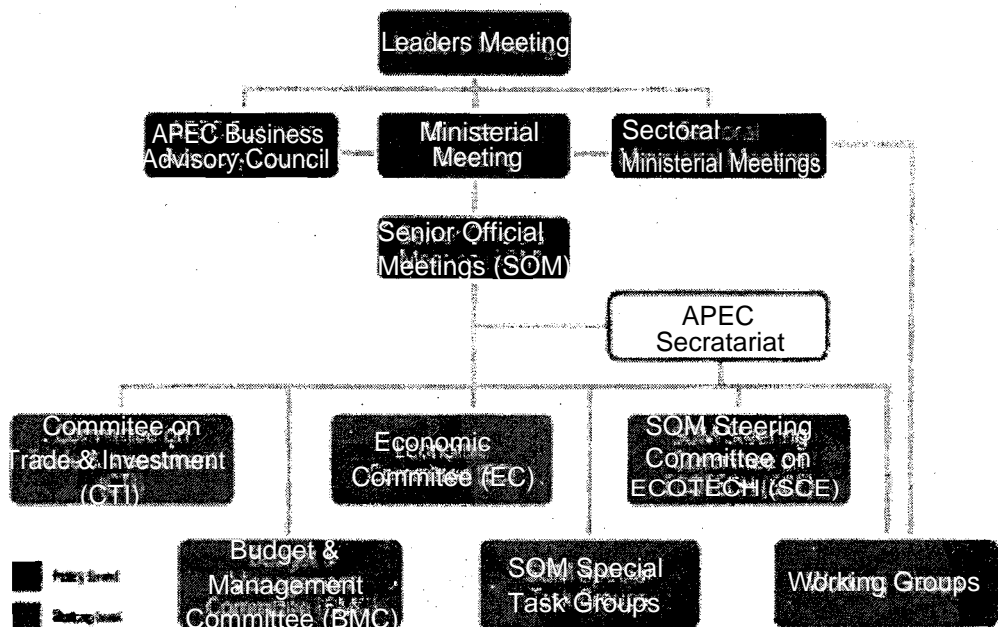
- the structure and process of the APEC;
- objectives of APEC in three important areas of trade liberalization: (i) Trade and investment liberalization; (ii) Business facilitation; and (iii) Economic and technical cooperation;
- Australia's economic relations-trade and investment with APEC;
- evolution of Australia's interest and role in the Indian Ocean Region (IOR);
- Australia's initiative along with India and South Africa in the establishment of Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) in 1997; and
- membership, structure and process of the IOR-ARC.

12.3 APEC STRUCTURE

APEC's structure makes it unique amongst trade and economic groupings. Unlike the WTO which is a rules-based organization with trade dispute enforcement powers, APEC uses consultation and consensus building to make progress. Policies agreed to at APEC meetings are adopted voluntarily and information sharing between member economies and with the public is an important feature.

APEC's key decisions are made at a series of annual meetings. The APEC Leaders' and Ministers' Meeting is the most important event in the APEC calendar. Other meetings held throughout the year are aimed at preparing issues for decision by the Leaders, as well as at carrying out directions issued by Leaders in previous years. There are regular meetings of APEC Ministers of education, energy, environment and sustainable development, finance, fisheries, human resources development, science and technology, small and medium enterprises, telecommunications, trade, tourism and transportation.

APEC Senior Officials meet three or four times throughout the year to oversee the work of APEC and prepare for the Leaders' Meeting and respond to directions set by Leaders in earlier meetings. Below the Senior Officials Meeting (SOM) are three overarching committees and 23 Working Groups and subject sub fora. APEC Working Groups are officials' level fora that pursue APEC's goal of free and open trade and investment at the sectoral level.



12.3.1 APEC Members

APEC Members include Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Philippines; Russia; Singapore; Chinese Taipei; Thailand; USA and Viet Nam. Every year one of the 21 APEC Member Economies plays host to APEC meetings and serves as the APEC Chair. The APEC host economy is responsible for chairing the annual Economic Leaders' Meeting, selected Ministerial Meetings, Senior Officials Meetings, the APEC Business Advisory Council and the APEC Study Centers Consortium and also fills the Executive Director position at the APEC Secretariat. The Deputy Executive Director position is filled by a senior diplomat from the economy which will host in the next year.

Asia-Pacific Economic Cooperation (APEC) has three Official Observers: the Association of Southeast Asian Nations Secretariat, the Pacific Economic Cooperation Council and the Pacific Islands Forum Secretariat. These observers participate in APEC meetings and have full access to documents and information related to these meetings. The observer groups provide partnership, expertise and insight that assist APEC to attain its goals and implement its initiative. Together, APEC economies represent over one-third of the world's population (2.6 billion people), approximately 60 per cent of global GDP and almost 50 per cent of world trade.

12.3.2 APEC's Three Pillars

Asia-Pacific Economic Cooperation (APEC) works in three broad areas to meet the Bogor Goals of free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies. Known as APEC's "Three Pillars", APEC focuses on three key areas:

- Trade and Investment Liberalisation
- Business Facilitation
- Economic and Technical Cooperation

The outcomes of these three areas enable APEC Member Economies to strengthen their economies by pooling resources within the region and achieving efficiencies. Tangible benefits are also delivered to consumers in the APEC region through increased training and employment opportunities, greater choices in the marketplace, cheaper goods and service and improved access to international markets.

Trade and Investment Liberalisation

Trade and Investment liberalisation reduces and eventually eliminates tariff and non-tariff barriers to trade and investment. Protectionism is expensive because it raises prices for goods and services. Thus, Trade and Investment Liberation focuses on opening markets to increase trade and investment among economies, resulting in economic growth for APEC Member Economies and increased standard of living for all.

Business Facilitation

Business Facilitation focuses on reducing the costs of business transactions, improving access to trade information and aligning policy and business strategies to facilitate growth, and free and open trade. Essentially, Business Facilitation helps importers and exporters in Asia Pacific meet and conduct business more efficiently, thus reducing costs of production and leading to increased trade, cheaper goods and services and more employment opportunities due to an expanded economy.

Economic and Technical Cooperation (ECOTECH)

ECOTECH is dedicated to providing training and cooperation to build capacities in all APEC Member Economies to take advantage of global trade and the New Economy. This area builds capacity at the institutional and personal level to assist APEC Member Economies and its people gain the necessary skills to meet their economic potential.

12.4 AUSTRALIA AND APEC

The Asia Pacific region is Australia's highest foreign policy priority for one very simple and enduring reason: It is the vital sphere of her economic and strategic interests. Australia's export and investment profile reveals how important the region is to the continued prosperity of all Australians. Almost two thirds of Australia's exports are to APEC countries and a growing percentage of these are manufactured products and skilled services. Half of Australia's total foreign direct investment goes to APEC countries. Australia's foreign policy goal has been to achieve practical outcomes in dealing with the region – outcomes which help to improve the prosperity of the country as a whole and the quality of life for ordinary Australians.

Membership of APEC expands Australia's focus beyond the domestic market and provides tremendous opportunities to create jobs and income. Australian business has access to over 2.5 billion consumers and around 60% of global income in 21 APEC member economies. APEC's membership accounts for about 70 per cent of Australia's trade and almost 50 per cent of inward investment, and includes eight of her top 10 export markets. APEC's continued advocacy of free and open trade and investment within this region is vital to Australian exports, economic growth and prosperity.

These economies also purchase around three-quarters of Australia's merchandise exports. In the last decade APEC exports have more than doubled to nearly AUS\$5 trillion, and APEC economies have generated 195 million new jobs and 70 per cent of the increase in the world's economic growth.

Since the first APEC meeting in Canberra, member economies have taken turns at hosting the key meetings each year. Prime Minister Howard announced at the 2002 APEC Leaders' meeting in Los Cabos, Mexico, that Australia would host APEC in 2007. This will be the first time Australia has hosted since 1989. APEC 2007 will be the largest and most logistically complex series of meetings ever held in Australia.

In a broader sense, hosting APEC 2007 allows Australia to assume a key coordination and policy development role within APEC, helping to ensure that APEC's future agenda continues to advance Australia's trade and foreign policy goals.

12.5 AUSTRALIA AND INDIAN OCEAN

Australia's situation is at the crossroads of Indian and Pacific Oceans, but with a crowded part of the Indian Ocean and an empty part of the Pacific Ocean close at hand. Is it possible to ignore the crowds and to turn to an empty space? In purely geographic terms, however, there can be no doubt that Australia is an Indian Ocean state. Two-thirds of its shores are washed by the Indian Ocean waters. Historically too, the first European traders and explorers to reach this so-called Southland in the early 17th century had approached it travelling across the Indian Ocean.

Although the Indian Ocean borders 9,000 of the 12,000 miles of Australia's coastline, traditionally Australia's strategic orientation was mainly towards events in and around the Pacific Ocean. As successive governments of the country have acknowledged, the main focus of the traditional Australian foreign policy was the Pacific Ocean region.

Australia has traditionally been seen as a Pacific Country and has looked to Britain and the US. Australia was for a long time a member of the British Empire, later on of the British Commonwealth. The reasons for Australia's long neglect of the Indian Ocean has been her 'Eastern Tilt', wide distance between places located at Australia's Eastern and Western Coasts, British presence in the Indian Ocean as a protecting shield and later the presence of Australia's 'great and powerful friend' the U.S.

The re-evaluation of Australia's Indian Ocean Policy was marked by the 1971 British withdrawal 'East of Suez', discovery of the mineral wealth of Western Australia, the appearance of Soviet Naval vessels in the Indian Ocean in 1968 and the enunciation of the Guam (Nixon) doctrine by the US in 1969 interpreted as threat to Australia's western region. Australia adopted a policy of 'Look West' in 1994 as a marked contrast against her 'Eastern Tilt'. In recent years, Australian governments (past and present) have given greater support to the institutionalization of Indian Ocean cooperation. The vast area of Indian Ocean Rim gives Australia a leading edge because the country has both capital and expertise to offer.

12.6 IORARC ORGANISATION BACKGROUND

The Indian Ocean Rim (IOR) initiative launched by South Africa, India and Australia generated interest among a number of countries. Mauritius, and later, Oman, Singapore and Kenya joined what became the 'Core' group.

The Indian Ocean Rim Association for Regional Cooperation (IORARC) was formally launched and its Charter adopted unanimously on 6 March 1997 at Port Louis, Mauritius. The Charter stated the fundamental principles, objectives, areas of cooperation, and institutional and financial structures and arrangements. The IOR-ARC has at present 18 member states. The basic purpose of creating the IOR-ARC was intra-regional economic cooperation among member countries for the mutual benefit of the people of these countries.

The Association serves as a platform available to the member countries to engage in a dialogue in order to increase economic cooperation in the region and to strengthen regional trade and investment links.

As for the institutional arrangements, the Charter provided for regular meetings of the Council of Ministers (COM) and Committee of Senior Officials (CSO) for taking decisions and implementing the agenda. It also

provided for a Secretariat of the Association to coordinate service and monitor the implementation of policies and laid down Work Programs. The Secretariat was to be based in Mauritius. The IOR-ARC combined the three wings of officials, businesspersons and academics. Close coordination among these three wings was envisaged to ensure that officials alone would not control its functioning. Actively involved in the conceptualization of the Association itself, the Indian Ocean Rim Business Forum (IORBF) and the Indian Ocean Rim Academic Group (IORAG) have both been playing significant role in the formulation and implementation of the projects in the work programmes of the IOR-ARC.

The highest authority of the Association rests with the Council of (Foreign) Ministers (COM), who meet once every two years (or more often as mutually decided). The COM formulates policy, reviews progress on co-operation, and makes decisions on new areas of co-operation and on the establishment of additional mechanisms for matters of general interest. The Committee of Senior Officials (CSO) is composed of government officials of Member States. It meets as often as mutually decided but at least once a year. It reviews the implementation of the decisions taken by the COM, and, in co-operation with the IORBF and the IORAG establishes priorities of economic co-operation; develops, monitors and co-ordinates work programmes; and mobilises resources for financing work programmes. The CSO submits periodic reports to the COM, and refers policy matters to the COM for their decision.

12.6.1 Membership

The Indian Ocean Rim Association for Regional Cooperation was launched in Mauritius in 1997. The Association comprises 18 member states: Australia; Bangladesh; India; Indonesia; Iran; Kenya; Madagascar; Malaysia; Mauritius; Mozambique; Oman; Singapore; South Africa; Sri Lanka; Tanzania; Thailand; UAE and Yemen. Egypt, Japan, China, France and the United Kingdom are dialogue partners while the Indian Ocean Tourism Organisation is an observer. Seychelles withdrew as a member on 1 July 2003.

The Association aims to facilitate trade and investment in the region. The working groups have business and academic representatives to ensure that different points of view and interests are fully reflected in IOR-ARC's work programme.

IOR-ARC provides a mechanism for furthering Australia's trade interests and business links around the Indian Ocean Rim. The Association disseminates information on trade and investment regimes, with a view to helping the region's business community to understand better the impediments to trade and investment within the region. These exchanges of information have been intended to serve as a base to expand intra-regional trade.

12.6.2 Recent Developments

The Association has had five ministerial meetings. The Fifth Council of Ministers of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) met in Colombo, Sri Lanka, from 26 to 27 August 2004. This followed meetings of the IOR-ARC Business Forum, Academic Group, Working Group on Trade and Investment and Committee of Senior Officials. A total of 143 representatives of IOR-ARC's 18 members examined strategies for further strengthening intra-regional trade and investment linkages and promoting economic development. In addition to the existing fisheries programme sponsored by Oman, members considered cooperation on tourism, electronic commerce, small and medium enterprises and shipping. It was also agreed to fast-track IOR-ARC's work program by enabling countries to initiate and implement projects within a group of five or more members. The commercial sector will play an increasingly important role in ensuring that IOR-ARC's policies accurately reflect business needs. IOR-ARC's Sixth Council of Ministers Meetings was held in 2006, in Tehran, Iran.

The IORARC was thought to have the potential of providing its member states with a powerful vehicle for the promotion of intra-regional trade and investment. This was to be achieved essentially by opening up the existing regulatory environment. However, several unfavourable developments in the global as well as regional economy have adversely affected the pace of progress during the last few years. There has also been an apparent decline in the degree of political commitment to the IOR-ARC process.

12.6.3 Australia's Interest in the IOR

Given the small population, promotion of exports is one of a major focus of Australia's economic policy. Australia seeks integration of its economy with the global economy through regional economies. The export promotion policy is integrally linked to the broader set of economic reforms which Australia has been pursuing for some years. Australia's long-standing policy of using tariffs to protect its local industry began changing in the early 1970s, and accelerated in 1988 with the Federal Government's programme of economic reform directed towards moving the country toward a globally competitive economy. Recent years have witnessed increasing integration of Australian trade with the fast growing in the Indian Ocean Region (IOR). Apart from Australia's growing penetration of Indian Ocean Markets, there is an evidence of a growing share of intra-industry trade between Australia and the Indian Ocean Region. This means that Australia and Indian Ocean countries tend to trade with each other in the same type of products from the same types of industry.

Western Australia is Australia's biggest state, covering 33% of the country's land area but with a relatively small population of 1.7 million, less than 10% while considering Australia's trade relations with the IOR, it is important to focus particularly on Western Australia's interests. The largest state of Australia, its entire coastline faces the Indian Ocean. Naturally, Western Australia has a much greater and larger interests in the Indian Ocean region.

Besides trade, Australia has some other interests also in the region such as maritime cooperation, marine resources, human resource development, education and health, science and technology, environmental issues, communications, tourism, transport, sport, culture, and parliamentary contacts.

12.7 SUMMARY

The Asia-Pacific Economic Cooperation (APEC) has developed into the region's most important multilateral forum, making an increasingly valuable contribution to regional co-operation, economic growth and stability. This makes it unique amongst trade and economic groupings. Unlike the WTO which is a rules-based organization with trade dispute enforcement powers, APEC uses consultation and consensus building to make progress. Every year one of the 21 APEC Member Economies plays host to APEC meetings and serves as the APEC Chair. APEC works in three broad areas to meet the Bogor Goals of free and open trade and investment in the Asia-Pacific known as APEC's 'Three Pillars'-Trade and Investment Liberalisation; Business Facilitation and Economic and Technical Cooperation. The Asia Pacific region is Australia's highest foreign policy priority for one very simple and enduring reason: It is the vital sphere of her economic and strategic interests. Australia will be hosting the APEC 2007 first time since Australia has hosted since 1989. APEC 2007 will be the largest and most logistically complex series of meetings ever held in Australia.

Australia's situation is at the crossroads of Indian and Pacific Oceans, but with a crowded part of the Indian Ocean and an empty part of the Pacific Ocean close at hand. In purely geographic terms, however, there can be no doubt that Australia is an Indian Ocean state. Two-thirds of its shores are washed by the Indian Ocean waters. Australia has traditionally been seen as a Pacific Country and has looked to Britain and the US. The re-evaluation of Australia's Indian Ocean Policy was marked by the 1971 British withdrawal 'East of Suez', discovery of the mineral wealth of Western Australia, the appearance of Soviet Naval vessels in the Indian Ocean in 1968 and the enunciation of the Guam (Nixon) doctrine by the US in 1969 interpreted as threat to Australia's western region. The vast area of Indian Ocean Rim gives Australia a leading edge because the country has both capital and expertise to offer. The Indian Ocean Rim Association for Regional Cooperation (IORARC) was formally launched and its Charter adopted unanimously on 6 March 1997 at Port Louis, Mauritius. The Association serves as a platform available to the member countries to engage in a dialogue in order to increase economic cooperation in the region and to strengthen regional trade and investment links.

The Association comprises 18 member states, IOR-ARC provides a mechanism for furthering Australia's trade interests and business links around the Indian Ocean Rim. The IORARC was thought to have the potential of providing its member states with a powerful vehicle for the promotion of intra-regional trade and investment. There has also been an apparent decline in the degree of political commitment to the IOR-ARC process. Australia has trade and other interests in the region.

12.8 EXERCISES

- 1) What makes APEC structure a unique one in Economic groupings?
- 2) Write a brief note on 'Three Pillars' of APEC.
- 3) Why do you think Asia Pacific region is Australia's highest foreign policy priority?
- 4) Why was Australia considered a Pacific Country for a very long time?
- 5) 'Indian Ocean region is a growing reality for Australia'. In the light of this statement discuss Australia's interests in this region.

12.9 SUGGESTED READINGS

Aggarwal, Amita, *Indian Ocean and World Peace*, New Delhi: Kanishka, 2000.

Andrew, Mack (ed.), *A Peaceful Ocean? Maritime Security in the Pacific in the Post Cold War Era*, Researcher School of Pacific and Asian Studies, Department of International Relations, Canberra, Australian National University.